

SouthGobi Announces Key Findings of Internal Investigation and Trading Resumption Plan

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VANCOUVER, March 31, 2019 - [SouthGobi Resources Ltd.](#) (TSX: SGQ, HK: 1878) (the "Company") announces that, further to its press release dated December 15, 2018, the special committee of independent non-executive directors of the Company (the "Special Committee") has concluded its formal internal investigation (the "Formal Investigation") into the past conduct engaged in by former senior executive officers and employees of the Company (the "Former Management and Employees") which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees (the "Suspicious Transactions"). The Special Committee has delivered a final report summarizing its key findings to the board of directors of the Company (the "Board"), which was adopted and approved at a meeting held on March 30, 2019. A summary of the actions taken by the Company and the Special Committee to date with respect to the Suspicious Transactions, as well as the material findings of the Special Committee in respect of the Suspicious Transactions that were investigated pursuant to the Formal Investigation, is set forth below.

Actions taken by the Company and the Special Committee to date

To date, the Company and the Special Committee have completed the following actions to address the issues and concerns raised by the Suspicious Transactions:

- the Company expanded the mandate of the Special Committee to conduct a formal investigation into the conduct of the Suspicious Transactions, the implicated Former Management and Employees, and their impact, if any, on the business and affairs of the Company. The Formal Investigation concentrated on the following areas of focus (the "Areas of Focus"): (i) the arrangements of the Suspicious Transactions; (ii) the relationships between the Former Management and Employees and certain coal trading and transportation companies; (iii) any unidentified questionable transactions relating to the Former Management and Employees; and (iv) the potential impact of (i), (ii) and (iii) on the financial statements of the Company and its subsidiaries;
- during the course of the Formal Investigation, certain incomplete accounting/operational records of one of the Companies Under Investigation (as defined below) (the "Company A") were identified in Company employee computers. As a result, the Special Committee expanded the scope of the Area of Focus of the Formal Investigation to include: (i) a fund flow analysis of Company A; and (ii) a price analysis of the difference between Company A's purchase prices from the Company and selling prices to downstream customers;
- the Company filed a report with local police authorities in China in respect of certain of the Suspicious Transactions;
- the Special Committee engaged Ernst & Young (China) Advisory Limited (the "Forensic Accountant"), as forensic investigators, to oversee the forensic investigation. The Special Committee also engaged Blake, Cassels & Graydon LLP (the "Blakes"), as independent Canadian legal counsel, and Zhong Lun Law Firm (the "Zhong Lun"), as independent Chinese legal counsel, to assist in the Formal Investigation;
- Blakes and Zhong Lun conducted a review of the Company's applicable policies and procedures from the perspectives of both Canadian and PRC law;
- the Forensic Accountant submitted to the Special Committee a final investigation report on March 26, 2019; and
- as disclosed above, the Special Committee concluded the Formal Investigation and has delivered a final report summarizing its key findings to the Board, which was adopted and approved at a meeting held on March 30, 2019.

Material findings of the Formal Investigation

Based on the Areas of Focus, the Special Committee examined and made findings in respect of a number of matters in connection with the Formal Investigation, including the following: (i) allegations that Mr. Aminbuhe,

the Company's former Chairman and Chief Executive Officer, controlled certain companies with which the Company had business dealings; (ii) uncollectable receivables from certain former customers and suppliers of the Company; (iii) the impact of the lawsuit filed by Jiayuguan Xiyuan Trading Co., Ltd. ("Xiyuan"); and (iv) allegations of misconduct by the Former Management and Employees, including: (I) the grant of a RMB5 million loan; (II) embezzlement of bank acceptance bills of RMB12 million; (III) endorsement of commercial acceptance bills of RMB71 million which were not supported by genuine commercial transactions; (IV) prepayments of RMB8.5 million for coal transportation services which were never received by the Company; and (V) prepayment of RMB16.4 million for coal transportation services which were never received by the Company.

Based on the information obtained from the Formal Investigation, the Special Committee has concluded that four matters examined in connection with the Formal Investigation, having an aggregate value of approximately RMB41 million, involved improper conduct, fraud or misappropriation of assets (the "Fraudulent Transactions") and that one matter examined in connection with the Formal Investigation, having an aggregate value of approximately RMB71 million, involved an accounting reclassification error. From an accounting perspective, the Company does not anticipate that the Fraudulent Transactions will have any impact on its financial statements (the "Financial Statements") in the future as the Company has already recorded the appropriate provisions in the Financial Statements as at December 31, 2018, 2017 and 2016 and for the years then ended.

Based on the key findings of and information obtained from the Formal Investigation, the Company has considered the resulting financial impact on the Financial Statements and determined that a restatement of prior period financial information is required. The restatements reflect the impact of the Fraudulent Transactions as well as the reclassification of certain balances of assets in the prior years. In particular, certain prepaid contracts recognized in 2016 were fictitious as the services were never to be received by the Company and accordingly no assets should have been recognized. Further, in 2016 there was embezzlement of bank acceptances. Consequently, in these financial statements there is no impairment related to these assets to be recorded in 2017. The net effect was an increase in the net comprehensive loss of 2016 of \$4.8 million and decrease of the net comprehensive loss of \$2.1 million in 2017. A summary of the requisite adjustments on the Financial Statements for the years ended 2016 and 2017 is set forth in the table below.

Summary of Adjustments (in millions of USD\$)	Year ended December 31, 2016	Year ended December 31, 2017
Statement of Comprehensive Income		
<i>Increase / (Decrease) of Net Comprehensive Loss before Tax</i>	4.8	(2.1)
Statement of Financial Position		
<i>(Decrease) of Total Assets</i>	(4.8)	(7.1)
<i>(Decrease) of Total Liabilities</i>	-	(4.4)
<i>Increase of Deficiency in Assets</i>	4.8	2.7

A summary of the material findings of the Special Committee in respect of the Suspicious Transactions that were investigated pursuant to the Formal Investigation is as follows:

(i) Companies allegedly controlled by the Company's former Chairman and Chief Executive Officer

In December 2018, the Company learned of allegations that Mr. Aminbuhe, the Company's former Chairman and Chief Executive Officer, controlled five different companies, four of which had business dealings with the Company (the "Companies Under Investigation").

While no written or definitive evidence supports the conclusion that Mr. Aminbuhe controlled the Companies Under Investigation, information obtained from the Formal Investigation prevents the Special Committee from dismissing this allegation entirely. Moreover, as set out in greater detail below, numerous transactions between the Company and the Companies Under Investigation were noted and have given rise to uncollectable receivables, further calling into question whether the Company's affairs were structured by parties internal to the Company in such a way as to advance the interests of Mr. Aminbuhe (through such companies). Given the Forensic Accountant's extensive investigation into this issue as well as the potentially elusive nature of any linkages with Mr. Aminbuhe, the Special Committee has determined that further inquiry into this matter will not yield a more definitive conclusion.

The accounting impact of the transactions between the Company and the Companies Under Investigation on

the Company are discussed in further detail below in respect of uncollectable receivables; however, the Company's accounting records indicate that the Company has ceased business activities with the Companies Under Investigation since May 2018. The Special Committee believes this cessation of business activities with the Companies Under Investigation serves as a significant protection, which ensures that the best interests of the Company remain protected from such conflicts of interest.

(ii) Uncollectable receivables

As of June 30, 2018, the Company has determined that it had an aggregate of RMB149 million of uncollectable receivables (after accounting for the impact of the restatement relating to the RMB71 million of commercial acceptance bills described below) related to Company A, one of the other Companies Under Investigation ("Company B") and six other coal trading companies (the "Six Coal Trading Companies"), of which Company A owed an aggregate net amount of RMB51 million and Company B owed an aggregate amount of RMB7.5 million.

Based on the information obtained from the Formal Investigation, the Special Committee did not find conclusive evidence that the Company's arrangements with Company A were contrary to Company's best interests, or that they were entered into partially or entirely with a view to benefiting Company A and its owners; however, the Special Committee has significant concerns regarding the fact that the net accounts receivable of a single customer (Company A) were allowed to reach a net aggregate of RMB51 million (after accounting for the impact of the restatement relating to the RMB71 million of commercial acceptance bills described below). As to Company B, the Special Committee has determined that prepayments made to Company B were made for the benefit of Mr. Aminbuhe and others (through a corporate vehicle) and has serious suspicions that the transactions with Company B were not structured with a view to the best interests of the Company.

From the perspective of internal controls, the Special Committee concluded that the transactions involving Company A, Company B and the Six Coal Trading Companies did not always comply with the Company's internal control policies and procedures, giving rise to a need to further strengthen the Company's policies and adherence thereto.

From an accounting perspective, the Company has decided to provide an allowance for the accounts receivable balances with Company A and the Six Coal Trading Companies; however, the Company has determined that these allowances do not require any restatement of the Financial Statements, as the write-offs have been accurately recorded in the Financial Statements for the years ended December 31, 2018. The uncollectable receivables owing from Company B, however, required an overall USD\$1.1 million restatement to be made in the Financial Statements, comprised of a USD\$0.7 million increase in the losses recorded on the 2016 income statement and a USD\$0.4 million increase in the losses recorded on the 2017 income statement.

(iii) Xiyuan lawsuit

On September 13, 2018, Xiyuan filed a lawsuit against IMSGE in relation to a dispute over certain coal sales contracts. In the lawsuit, Xiyuan alleged a connection between Company A and the Company, specifically that Company A acted as the Company's representative in collecting prepayments from Xiyuan and one of the Six Coal Trading Companies, being an affiliate of Xiyuan. Xiyuan withdrew its legal action against IMSGE on January 24, 2019 owing to a lack of evidence.

Given the withdrawal of the lawsuit (notably for lack of evidence), the Special Committee has concluded that the allegations raised in the Xiyuan lawsuit about a connection between Company A and the Company do not strengthen any suggestion that the Company and the Companies Under Investigation (such as Company A) were linked during Mr. Aminbuhe's tenure or otherwise. The Special Committee takes the view that the allegations of a third party intending to further its own commercial interests should not materially impact the analysis of the relationship between Mr. Aminbuhe, the Companies Under Investigation and the Company.

(iv) Alleged other misconduct by Former Management and Employees

(I) Grant of RMB5 million loan

The Company's accounting records indicate that, in February 2018, IMSGE advanced a loan in the aggregate amount of RMB5 million to Xiyuan. This RMB5 million loan has not been repaid by Xiyuan as of the date hereof.

The Special Committee has determined that there was neither a loan agreement entered into between IMSGE and Xiyuan for this loan nor any clear business rationale supporting the loan, and that the loan does not appear to have been properly documented, in derogation of Company policy.

The RMB5 million loan was written off in the Financial Statements for the third quarter of 2018.

(II) Alleged embezzlement of bank acceptance bills of RMB12 million

The Company learned of allegations that certain Former Management and Employees entered into a fraudulent coal transportation agreement in the amount of RMB12 million with one of the Six Coal Trading Companies ("Company C"), being a vendor of IMSGE. Specifically, it was alleged that, after an employee of IMSGE presented bank acceptance bills in the aggregate amount of RMB12 million to Company C as a form of prepayment for certain transportation services, such employee, under the instruction of two members of the Former Management and Employees, took back possession of these bank acceptance bills from Company C and discounted them for uses unrelated to the coal transportation agreement.

Based on the information obtained from the Formal Investigation, the Special Committee is of the view that it is reasonable to conclude that the prepayment to Company C was fraudulent and amounted to misconduct. This conclusion is strengthened by the fact that local PRC law enforcement authorities appear to be pursuing this matter.

The Company has determined that this prepayment recorded should be considered uncollectable from the time of occurrence and a restatement of the Financial Statements is required, comprised of a USD\$1.8 million increase in the losses recorded on the 2016 income statement.

(III) Endorsement of commercial acceptance bills of RMB71 million which are not supported by genuine commercial transactions

Company A is alleged to have endorsed commercial acceptance bills in the aggregate amount of RMB71 million to IMSGE, purportedly for the settlement of certain trade payables owing by Company A to IMSGE. However, these commercial acceptance bills were ultimately rejected by the original issuer of the bills because these bills were not supported by any underlying coal trading transactions.

The Special Committee acknowledges that the accounting treatment of these commercial acceptance bills was ultimately incorrect and will require a restatement of the Financial Statements, comprised of a USD\$10.6 million decrease of notes receivables, a USD\$5.3 million increase of trade and other receivables and a USD\$5.6 million decrease of deferred revenue recorded on the 2017 balance sheet, as well as a USD\$0.3 million decrease of finance costs recorded on the 2017 income statement. However, the Special Committee does not have sufficient information to conclude whether this business arrangement was an intentional falsification of records for nefarious purposes or a situation where a simple accounting error was made. By virtue of this situation, the endorsement of commercial acceptance bills will be reclassified to trade and other receivables as opposed to notes receivables.

(IV) Prepayment of RMB8.5 million for coal transportation services which were never received by the Company

In January 2017, IMSGE made prepayments totaling RMB8.5 million to one of the Companies Under Investigation ("Company D") for certain coal transportation services. The Company learned of allegations that Company D has not provided these coal transportation services to IMSGE, nor has Company D refunded the amount of the prepayments to IMSGE. Company D is the sole shareholder of Company A.

In December 2017, IMSGE signed tripartite agreements with the sole shareholder of one of the Six Coal Trading Companies ("Company E") and another third party company which provided for an offset of the amounts owed by IMSGE to Company E and such third party company in the aggregate amount of RMB7.7 million against the prepayment of RMB8.5 million made to Company D. However, in July 2018, the parties were in disagreement about the arrangement and the counterparties to the tripartite agreements asked to be paid for the services they had provided to IMSGE, alleging that the tripartite agreements were fraudulent.

Based on the information obtained from the Formal Investigation and advice from legal counsel in China, the Special Committee takes the view that the tripartite agreements are legally enforceable and that under the agreements IMSGE is entitled to offset the aggregate amount of RMB7.7 million against the trade payables which it owed to the counterparties and Company D is not obligated to repay such amount to IMSGE. As a result, the Company does not intend to settle the amounts to either of the counterparties as requested.

(V) Prepayment of RMB16.4 million for coal transportation services which were never received by the Company

Based on the information obtained from the Formal Investigation, the Special Committee learned that the Company made a prepayment to another company ("Company F") in the amount of RMB16.4 million allegedly for transportation services.

The Forensic Accountant requested but was not able to obtain any records to suggest that transportation services have been rendered by Company F to the Company as of the date hereof.

Based on the information obtained from the Formal Investigation, the Special Committee has concluded that the Company's financial records were inaccurate related to this matter, contrary to the best interests of the Company and to the benefit of parties other than the Company. A restatement of the Financial Statements was required as a result of this payment, comprised of a USD\$2.4 million increase in the losses recorded on the 2016 income statement and a USD\$2.5 million decrease in the losses recorded on the 2017 income statement.

Remedial Actions

Since the appointment of the new senior management team in June 2018, the Company has taken proactive steps to address the issues which gave rise to the Suspicious Transactions. The senior management team has been fully cooperative throughout the Formal Investigation process and is committed to making every effort to prevent any similar issues from arising in the future.

The Special Committee, with the assistance of its professional advisors, is in the process of assessing the potential remedial actions and preventative measures available to the Company to address the issues which caused the trading suspension, which will include amendments to the Company's existing system of internal controls and risk management policies and procedures to improve and strengthen the Company's commitment to a culture of honesty, integrity and accountability and compliance with the highest standards of professional and ethical conduct, and such other actions as the Special Committee may consider necessary or appropriate to protect the Company's interests.

Trading Resumption Plan

Based on the key findings of and information obtained from the Formal Investigation and with the advice of its professional advisors, the Board has approved the principal actions, together with the related dates of completion or anticipated completion, set forth in the table below (collectively, the "Resumption Plan") in order to address the issues which caused the trading suspension, re-comply with the Hong Kong Stock Exchange's listing rules and allow trading of the Company's common shares to resume trading on the Hong Kong Stock Exchange:

Action Item

Date of C

The Company completes a forensic investigation into the Suspicious Transactions	The Forensic Investigation into the Suspicious Transactions
The Special Committee concludes its formal investigation and, with the assistance of its professional advisors, completes its final report summarizing the key findings of the formal investigation and submits the same to the Board for consideration	The Special Committee's Final Report
The Board meets to consider and, if deemed appropriate, approve the Special Committee's final report and the Resumption Plan	The Board's Approval of the Resumption Plan
The Company announces the material findings of the Special Committee in respect of the Suspicious Transactions that were investigated pursuant to the Formal Investigation and the Resumption Plan	The Company's Announcement of the Material Findings of the Special Committee
The Company announces its financial results for the fiscal year ended December 31, 2018	The Company's Financial Results for the Fiscal Year Ended December 31, 2018
The Special Committee, with the assistance of its professional advisors, completes its assessment of the potential remedial actions and preventative measures available to the Company to address the issues which caused the trading suspension and prepares a report on its conclusions and recommendations for the Board. The Board considers the recommendations of the Special Committee and formalizes and approves a set of remedial actions and preventative measures	The Special Committee's Assessment of Remedial Actions and Preventative Measures
The Company applies to the Hong Kong Stock Exchange and the Toronto Stock Exchange for trading in the Company's common shares to resume	The Company's Application to the Hong Kong Stock Exchange and the Toronto Stock Exchange for Trading in the Company's Common Shares to Resume
The Company announces the remedial actions and preventative measures approved by the Board and the resumption of trading on the Hong Kong Stock Exchange and the Toronto Stock Exchange	The Company's Announcement of the Remedial Actions and Preventative Measures Approved by the Board and the Resumption of Trading on the Hong Kong Stock Exchange and the Toronto Stock Exchange
The Resumption Plan set forth above has been approved by the Board based on the information and advice received to date and may be subject to change. In accordance with Rule 13.24A of the Hong Kong Stock Exchange's listing rules, the Company will announce details of any material changes to the Resumption Plan (including any delays thereof) as and when necessary.	

Continued Suspension of Trading in the Shares

Trading in the common shares of the Company on the Hong Kong Stock Exchange and the Toronto Stock Exchange has been suspended since December 17, 2018, and will remain suspended until further notice. Pursuant to Rule 6.01A(1) of the Listing Rules, the Hong Kong Stock Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, this 18-month period expires on June 16, 2020. The Hong Kong Stock Exchange has advised that unless the Company (1) remedies the issues causing the trading suspension; (2) fully complies with the Listing Rules to the Hong Kong Stock Exchange's satisfaction; and (3) resumes trading of its common shares on the Hong Kong Stock Exchange by June 16, 2020, the Listing Department of the Hong Kong Stock Exchange will recommend that the Company's listing on the Hong Kong Stock Exchange be cancelled. Pursuant to Listing Rules 6.01 and 6.10, the Hong Kong Stock Exchange also has the right to impose a shorter specific remedial period, where appropriate.

The Company will make additional announcements if and when there are further material developments in relation to the Resumption Plan, and, in any event, every three months until the Hong Kong Stock Exchange either permits resumption of trading in the Company's common shares or cancels the Company's listing on the Hong Kong Stock Exchange (whichever is earlier).

Forward-Looking Statements

Certain information included in this news release that is not current or historical factual information constitutes forward-looking statements or information within the meaning of applicable securities laws (collectively, "forward-looking statements"), including information about timing with respect to the announcement of the Company's financial results for its 2018 fiscal year, the completion by the Special Committee's assessment of the potential remedial actions and preventative measures available to the Company to address the issues which caused the trading suspension, approval of specific remedial actions and preventative measures by the Board, applications to the Hong Kong Stock Exchange and the Toronto Stock Exchange for trading in the Company's common shares to resume and the resumption of trading of the Company's common shares on the Hong Kong Stock Exchange and the Toronto Stock Exchange. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other

similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on certain factors and assumptions including, among other things, the Special Committee's ability to its assessment of the potential remedial actions and preventative measures available to the Company in a timely manner, the Company's ability to satisfy the Hong Kong Stock Exchange's resumption guidance conditions, the Hong Kong Stock Exchange and Toronto Stock Exchange accepting the Company's application for trading resumption and other similar factors that may cause actual results to differ materially from what the Company currently expects. Actual results may vary from the forward-looking statements. Readers are cautioned not to place undue importance on forward-looking statements, which speaks only as of the date of this disclosure, and not to rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to, update or revise any forward-looking statements, whether as a result of new information, further events or otherwise at any particular time, except as required by law. Additional information concerning factors that may cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian securities regulatory authorities and can be found under the Company's profile on SEDAR at (www.sedar.com).

About SouthGobi

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining licences of its other metallurgical and thermal coal deposits in South Gobi Region of Mongolia. SouthGobi produces and sells coal to customers in China.

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